



County of Los Angeles
CHIEF ADMINISTRATIVE OFFICE

713 KENNETH HAHN HALL OF ADMINISTRATION • LOS ANGELES, CALIFORNIA 90012
(213) 974-1101
<http://cao.co.la.ca.us>

DAVID E. JANSSEN
Chief Administrative Officer

Board of Supervisors
GLORIA MOLINA
First District

YVONNE B. BURKE
Second District

ZEV YAROSLAVSKY
Third District

DON KNABE
Fourth District

MICHAEL D. ANTONOVICH
Fifth District

February 10, 2005

To: Supervisor Gloria Molina, Chair
Supervisor Yvonne B. Burke
Supervisor Zev Yaroslavsky
Supervisor Don Knabe
Supervisor Michael D. Antonovich

From: David E. Janssen
Chief Administrative Officer

SACRAMENTO UPDATE

Medi-Cal Hospital Financing

Negotiations between the California Health and Human Services Agency and the Federal Centers for Medicare and Medicaid Services (CMS) regarding changes to Medi-Cal hospital financing appear to be advancing. We understand this issue will be considered during Governor Schwarzenegger's trip to Washington, DC next week.

As previously reported, the Schwarzenegger Administration has been engaged in discussions with CMS to change the way in which Medi-Cal hospital payments would be financed in California. Specifically, in conjunction with its Medi-Cal Redesign effort, the Administration seeks to change the mechanics of inpatient Medi-Cal payments, including the \$2 billion Disproportionate Share Hospital (DSH) and SB 1255 hospital payment programs, to reduce and/or phase-out the use of Intergovernmental Transfers (IGTs).

The Administration proposes to replace IGTs with an alternative financing model known as Certified Public Expenditures (CPEs), which would be based upon expenditures by County and University of California hospitals. In theory, County funds expended on indigent health care would be counted as CPEs, and used to backfill IGTs currently used to fund the non-Federal share of DSH and SB 1255 payments. The Administration's approach requires a five-year 1115 waiver, which would replace the existing Selective Provider Contracting Program (SPCP) waiver.

The Disproportionate Share Hospital (DSH) Task Force, on which the County participates, has raised numerous concerns including whether the proposed approach addresses California's inadequate Medicaid share, the pitfalls of trading IGTs for CPEs, and whether the Administration's concept promotes safety net hospital stability. Because the Administration has not provided detailed financial information, it has been impossible to determine how provider payments would be impacted, and to what extent the County Department of Health Services' fiscal forecast would change.

Staff from my office and the Department of Health Services continue to work with the California Association of Public Hospitals, through the DSH Task Force, to ensure that Medi-Cal payments to the County health care system are protected.

On February 17, 2005, Senate Budget Subcommittee #3 – Health and Human Services is scheduled to hold a hearing on the Governor's Proposed Medi-Cal Redesign, with a focus on the hospital financing issue. Assembly Budget Subcommittee #1 – Health and Human Services is scheduled to hold a similar hearing on February 23, 2005.

Undesignated Trial Court Fees

Since the release of the Governor's Proposed Budget, we have learned that it assumes the continuation of the transfer of \$31 million of undesignated trial court fee revenue from counties to the State trial court system. This transfer, which was agreed to by counties as part of the FY 2003-04 budget, was supposed to be for no more than two years and is scheduled to sunset at the end of this fiscal year. The County's share of the \$31 million transfer is \$9.8 million.

While the budget documents fail to mention, much less explain this change, the \$31 million is believed to be a placeholder pending further discussions between the courts and counties on how to standardize fees and produce additional revenue for the court system. Attachment I contains a revised version of the table showing the estimated loss to the County from the Governor's Budget, reflecting the additional reduction that would result from the continuation of the transfer.

Assembly Hearings Announced

This week, Speaker Fabian Nuñez announced the first round of hearings on the Governor's Budget. The hearings, which began on February 8th, will run through February and highlight key Budget issues including education, transportation, the environment, health care, and prisons.

In addition, the Speaker announced the creation of several Extraordinary Session Committees, which will begin hearings on the Governor's Extraordinary Session proposals on Monday, February 28. The Committees are: Budget, Education, Public Sector, District Representation, Ways and Means, and Constitutional Amendments.

The Budget Committee will hear ACA 4X and related bills. ACA 4X (Keene) is the Governor's proposed Constitutional Amendment to automatically cut State expenditures if, during the budget year, the Budget is estimated to be \$250 million or more out of balance as compared to the adopted budget and the Legislature fails to act within 45 days to address the shortfall.

The Education Committee will hear ACA 1X (Richman) and ACA 2X (Daucher). ACA 1X is the Governor's mandatory defined contribution public pension plan. ACA 2X is the Governor's proposal for a mandatory, annual financial report by K-12 school districts. The Public Sector Committee will also hear ACA 1X.

The District Representation Committee will hear ACA 3X (McCarthy) which is the Governor's proposal to create a new reapportionment process run by appointed retired state or federal judges and require that new reapportionment boundaries be drawn before the next primary and general elections in 2006.

California Performance Review

The Senate Committee on Government Modernization, Efficiency & Accountability held a hearing on the Governor's California Performance Review and Reorganization Plans, yesterday. Attachment II includes the handout used by Legislative Analyst Elizabeth Hill in her presentation.

We will continue to keep you advised.

DEJ:GK
MAL:JF:JR:JL:ib

Attachments

c: Executive Officer, Board of Supervisors
 County Counsel
 Local 660
 All Department Heads
 Legislative Strategist
 Coalition of County Unions
 California Contract Cities Association
 Independent Cities Association
 League of California Cities
 City Managers Associations
 Buddy Program Participants

ESTIMATED LOSS TO LOS ANGELES COUNTY
FROM THE FY 05-06 GOVERNOR'S BUDGET
(Dollars in Millions)

Reduction in State Participation in IHSS Wages / Benefits		\$ 73.4
Suspension of State Mandates		33.3
Elimination of Juvenile Justice Grants		27.9 *
Probation:	\$15.0	
Mental Health	5.5	
DCFS	.6	
District Attorney	.3	
DHS/Alcohol and Drug	1.1	
Parks / Recreation	.5	
Sheriff	.4	
Community / Senior Services	.2	
CDC / Housing	.6	
Non-County Recipients	3.6	
Public Works: Suspension of Proposition 42 Transportation Funds		24.7
Undesignated Court Fees: Continuation of Transfer		9.8
Assessor: Reduction in Property Tax Grants		1.4
DPSS: Leader Reduction		.2
Public Library: Reduction in Library Foundation		.2
Total Loss		\$ 170.9

* This program is forward funded so that the loss does not occur until FY 06-07. Some \$25 million from the \$100 million program have been set aside "for distribution to local governments" for purposes yet to be specified in the juvenile justice area.

This table represents the loss of State funds based upon the Governor's January Budget. It does not reflect the actual impact on the County or a department's budget which may assume a different level of State funding or be able to offset lost revenue.

Senator Liz Figueroa
Chair

Senator Bob Dutton, Vice Chair
Senator Roy Ashburn
Senator Debra Bowen
Senator John Campbell
Senator Denise Moreno Ducheny
Senator Daan Florez
Senator Sheila Kuehl
Senator Tom McClintock
Senator Kevin Murray

SENATE
CALIFORNIA LEGISLATURE



1020 N Street, Room 521
Sacramento, CA 95814
(916) 324-2506
Fax (916) 324-5009

Ed Howard
Consultant

Committee on Government Modernization, Efficiency & Accountability

Tuesday, February 8, 2005
9:00a.m. to 4:00p.m.
State Capitol, Room 3191

ARE THERE LIMITS TO WHAT REFORM CAN ACCOMPLISH?

PANEL 1
9:00A.M. Governor's CPR and GRPs: Show Me the Money!

Elizabeth Hill, Legislative Analyst, State of California
Jean Ross, Executive Director, California Budget Project

Speakers have been asked to address the following issues: Have you analyzed GRP 1, GRP 2, and/or the CPR Report? If so, have you quantified the savings, costs, and total fiscal effects? Relative to recommendations in GRP 1, GRP 2, and/or the CPR Report where are our greatest opportunities for eliminating waste, improving efficiencies, and reducing the cost of government? As you reviewed GRP 1, GRP 2, and the CPR Report, are there areas where you believe there were missed opportunities? If so, what were they? If the Legislature is asked to evaluate and make a policy decision on any GRP, how should fiscal effects of the GRP be considered in that process?

PANEL 2
10:30A.M. Transparency and Accountability -- Can There Be Accountability In A Secret Government?

Linda Sheehan, Executive Director, California Coastkeeper Alliance
Tom Newton, General Counsel, California Newspaper Association
Ted Prim, Deputy Attorney General, Office of Attorney General Bill Lockyer
Terry Francke, General Counsel, Californians Aware
Peter Scheer, Executive Director, California First Amendment Coalition

Speakers have been asked to address the following issues: Does the public have adequate knowledge of the actions of its government? If not, please explain. Are there current policies that prevent the public from having adequate access to information? If so, what are they? In situations where the government is required to provide the public with certain information, is that information readily and easily available and is it communicated in a manner that is meaningful and useful? Is government adequately accountable? Has government adequately and efficiently used the internet and electronic communication to communicate with the public? How useful is the information currently provided on the internet and electronically? Is adequate information from its government? How can more information result in increased accountability and efficiencies?

BREAK - 12:30P.M. TO 1:30P.M.

PANEL 3 **Is California's Business Climate Most Affected by What Government does or by Market**
1:30P.M. **Forces?**

Nick Bollman, President, California Center for Regional Leadership

Betty Jo Toccoli, Chair, California Small Business Association

Bill Allayaud, Legislative Director, Sierra Club California

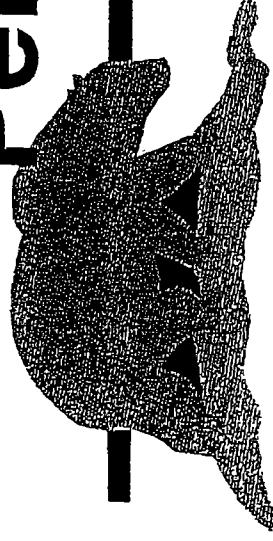
Dominic DiMare, Vice President of Government Relations, Chamber of Commerce

Angie Wei, Legislative Director, California Labor Federation

Speakers have been asked to address the following issues: What is the current business climate in California? (Please provide data, trends, and other economic indicators.) How do California businesses compete in a global economy without compromising the current standard of living and quality of life that Californians have come to demand and expect? What roles do health care, workers compensation, housing, transportation, education, taxes, and quality of life issues, play in California's business climate (Our ability to attract and retain businesses and employees)? What does business need, want and/or expect from its government? How does government balance those needs, wants, and/or expectations with its duty to protect the environment, defend the rights of workers, consumers, and all Californians, and meet other public demands, wants and/or expectations? Does government have a responsibility to spend tax dollars in a manner that promotes and protects the current standard of living and quality of life that Californians have come to demand and expect? If so, how does government assure against waste without adversely affecting taxpayers, the economy, and/or businesses? Does government have a role in promoting corporate citizenship and responsibility? Or, is corporate citizenship and responsibility something the market itself can provide without consideration of public policy and government playing a role? There has been much written about how government can conduct the business of government more like a business by examining where the services of an agency may be provided better through contracts with other agencies. How can government look internally for streamlining opportunities (through interagency contracts for services) before outsourcing?

PUBLIC COMMENT

The California Performance Review



Legislative Analyst's Office

www.lao.ca.gov



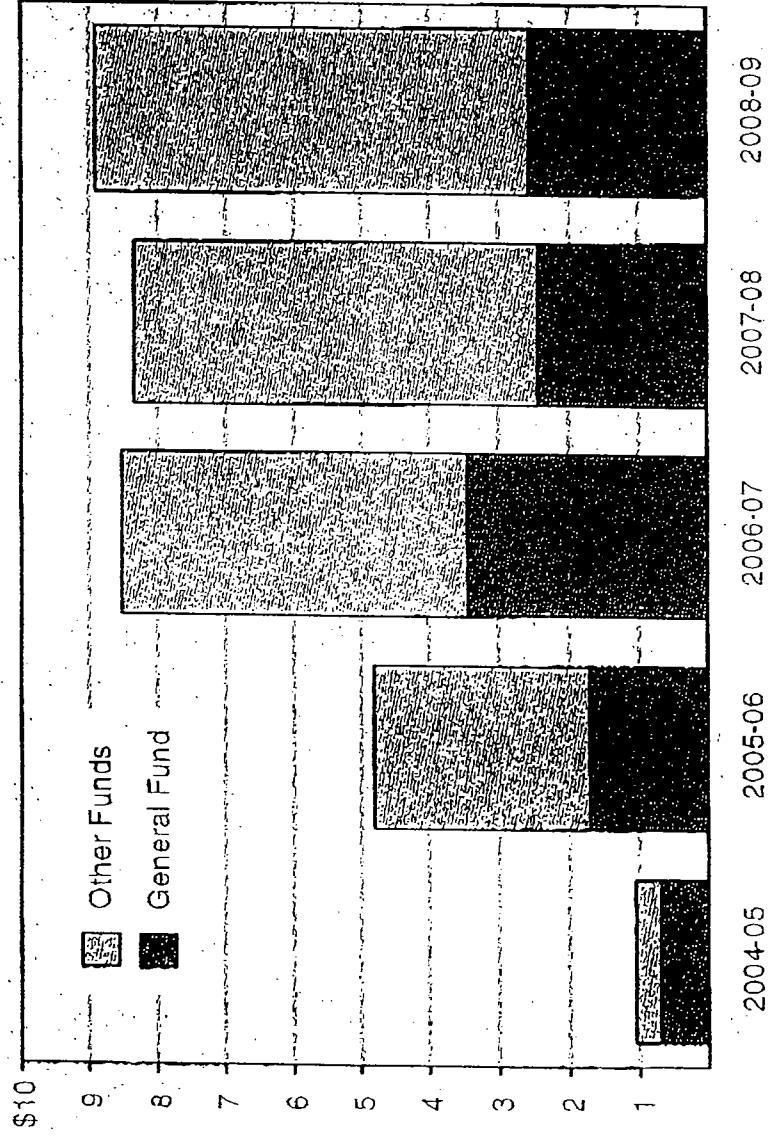
CPR's Reorganization

- ▶ **11 Mega-Departments**
- ▶ **Elimination of Boards and Commissions**
- ▶ **Office of Management and Budget**
- ▶ **Tax Commission**



CPR Assumes \$32 Billion in Savings Over 5 Years

In Billions



Fifteen CPR Proposals With Largest Fiscal Effects

CPR Estimates, Dollars in Millions

Rank	CPR Reference	Issue	Five Year Estimate		Cumulative	
			General Fund	Other Funds	Total	Percentage
1	GG 07	Maximize Federal Grant Funds	—	\$8,200	\$8,200	26%
2	HHS 01	Transform Eligibility Processing	\$1,548	2,471	4,018	39
3	SO 43	Work Force Plan for California State Employees	1,646	1,646	3,293	49
4	ETV 11	Change Enrollment Entry Date for Kindergarten	1,860	820	2,700	58
5	INF 15	Transportation Funding Initiatives	—	1,960	1,960	64
6	GG 36	Biennial Vehicle Registration	1,259	—	1,259	68
7	GG 06	Lottery Reforms	—	1,024	1,024	71
8	ETV 18	Increase College and University Tuition for Non-Resident Students	—	1,004	1,004	74
9	SO 71	Performance-Based Contracting	485	485	970	77
10	SO 72	Strategic Sourcing	427	427	855	80
11	INF 30	Decentralize Real Estate Services	410	410	819	83
12	INF 13	Reinquinish Highway Routes to Local Agencies	—	432	432	84
13	GG 01	Tax Amnesty	384	15	399	85
14	INF 11	Selling Surplus Property Assets	379	—	378	86
15	GG 17	Tax Relief on Manufacturing Equipment	343	—	343	88
		All Other CPR Proposals	2,029	1,921	3,950	100
		Totals, All CPR Proposals	\$10,791	\$20,815	\$31,606	100%

Savings Concentrated in A Few Proposals

- **3 Proposals Account for Half of the Savings**
 - **Maximizing Federal Grants \$8.2 billion**
 - **Transforming Eligibility Processing \$4 billion**
 - **State Workforce Plan \$3.3 billion**

Savings Overstated

- **Proposals not fully developed**
- **Offsetting costs not consistently recognized**
- **More Reasonable Estimate Would Be \$10 to \$15 Billion Over 5 Years**
- **Not a Cure-All for the State's Structural Budget Shortfall**

Criteria for Considering the Merits of a Reorganization Proposal

As the Legislature considers the CPR and other future reorganization proposals, it may want to consider the following questions to help determine a proposal's merits.

- ✓ **Effectiveness.** Would the reorganization make the programs more effective? Would the public receive better services as a result of the reorganization?
- ✓ **Accountability.** In the current and the new structures, who is responsible for the program's outcomes? Is the new structure likely to improve program accountability?
- ✓ **Oversight.** Will the new structure provide for effective, independent oversight by the executive and legislative branches?

Criteria for Considering the Merits of a Reorganization Proposal *(continued)*

- ✓ **Efficiency.** Would the reorganization improve the use of limited resources? Are there reasons to believe that the programs can be administered more efficiently? Do existing programs exhibit duplication of effort or lack of coordination?
- ✓ **Other Options.** What is the problem that is being addressed? Is a reorganization the best approach to solve that problem? Could improved leadership, changes in policy, better coordination between departments, or other solutions provide a better result?
- ✓ **Implementation.** Do the expected long-term benefits outweigh the short-term costs and disruptions from the implementation of the reorganization? Will the public experience a disruption in services? Does the implementation need to occur now, or can it be phased in over time?